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SUBJECT: Latest GoB Testimony on FTAA to Brazilian Congress

11. SUMMARY. On March 23, EconFSN attended a presentation to Brazil's Congress by Ambassador Macedo Soares, the MFA's Undersecretary for South American Affairs and top FTAA negotiator, on the current status of FTAA negotiations. Macedo Soares was speaking at the opening of the Parliamentary Committee of the Americas meeting, held at the Brazilian Chamber of Deputies and chaired by Deputy Maria Maninha (PT/DF). Amb. Soares admitted the slow speed of current negotiations, but still voiced confidence that a Free Trade Area of the Americas will be agreed by January 1, 2005 and, even if it starts up at a low 'level of ambition', will thereafter develop into a high-ambition project. As best we can tell, Macedo Soares' notion of this initial FTAA is limited in nature to market-access and tariff-reduction aspects. END SUMMARY.

12. Macedo Soares started his presentation by mentioning that Brazil is the only country in the hemisphere with wide press coverage on the FTAA issue. He then drew attention to the contrast between the fast-approaching FTAA deadline and the lack of progress in negotiations. He mentioned that the deadline of 2005 agreed at the 1994 Miami Summit had been reaffirmed during the Buenos Aires April 2001 Ministerial and at the Third Summit of the Americas at Quebec in November 2001 (NOTE: there was no reference to the most recent reaffirmations of the 2005 deadline such as at the June 2003 presidential summit. END NOTE). He explained that the pressure on the negotiators increases as time slips by, especially on those from "weaker" countries.

13. Referring to what he termed the virtual recent immobilization of FTAA negotiations, Macedo Soares highlighted the following issues:

-- market access: The goal of Mercosul is to increase both agriculture and industrial exports to the U.S. and Canada, but it faces two major problems: agricultural subsidies and anti-dumping measures on manufactured products, such as steel. Even if major tariff reductions occur, these two factors are still strong barriers to market access. Amb. Soares reiterated that the U.S. has announced that these issues will not be treated at the FTAA level, as long as another "strong trade power", the E.U., does not lift its own such subsidies and barriers.

-- Rules for Services/IPR/Government Procurement/Investment: Macedo Soares asserted to the Chamber that market access, with its tariff-reduction lists, should not be traded-for by means of concessions over rules on the above issues. The GOB already has its established position for each item. In general, Brazil will not go beyond its commitments made at the Uruguay Round, i.e., GATS for services, and TRIPS for IPR.

-- Regarding investments, said Macedo Soares, Brazil is neither a member-party to plurilateral agreements, nor has it approved any Bilateral Investment Treaties (BITs). This, he commented, has not stopped some foreign companies from having been in the country for over a century. Brazil is not in favor of any dispute-settlement arrangement regarding investments.

-- On government procurement, in Macedo Soares's words, as there are no international rules on the issue, Brazil prefers to stick to its domestic legislation, keeping in mind that this is one of the few available instruments of industrial policy. Macedo Soares commented that the U.S. also has restrictive GP policies.

14. Amb. Soares also made the following general observations on the FTAA negotiation process:

-- the Mercosul countries will "unlock" negotiation groups so as to find a formula for the "possible FTAA", as defined by MFA Celso Amorim, or the "FTAA which neither impedes nor imposes", defined in the Miami Nov 2003 Ministerial.

-- the idea is to find a "common body" of market access for all 34 countries, leaving greater ambitions for plurilateral agreements. This would guarantee the successful conclusion of the negotiations.

-- the current challenge is the definition of what should be negotiated in the common group both in order to reach a substantive result and also as preparation for the plurilaterals.

-- The argument for "emptying" the content of the common body while intensifying the content of future plurilaterals is not in the interest of Brazilian businesses.

-- A Brazilian attempt to exchange concessions in Services/Investments for benefits in agriculture might well not work; thus, that is not a GOB negotiating stance.

-- A common market in the Americas, including free transit of people, is desirable, but should be a long term goal, because targeting all issues in the short run would be dangerous, if not an illusion.

15. Further excerpts from Macedo Soares comments during the prolonged question-and-answer session:

-- The Mercosul expectation is that in Puebla April 22-23, a set of parameters will be defined for the conclusion of FTAA negotiations by the end of 2004. A Secretariat and a program of hemispheric cooperation should be developed to accompany FTAA implementation.

-- Amb. Soares said that Cancun failed to make progress on the crucial agriculture question because its agenda was overloaded, but now prospects are much brighter, with promising proposals having been put forward by both the U.S. and E.U. trade authorities.

-- it is not in Brazil's interest to concede to the U.S. the same benefits which would be conceded to neighbors.

-- environment and labor issues may be considered, as long as they do not represent an obstacle to free trade and a means of sanctions based on a non-Brazilian judgment in the dispute-settlement mechanism.

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